
City of Asheville

HOUSING REHABILITATION LOAN PROGRAM

Guidelines (Revised Effective November 1, 2003)



INTRODUCTION

The City of Asheville, in response to the need for housing that is decent, safe, and affordable to low-income families, and recognizing the benefit to the community of the efficient utilization of existing housing resources, has provided this program for the rehabilitation and conservation of existing housing. The Housing Rehabilitation Office administers the City of Asheville Housing Rehabilitation Loan Program.

The purpose of this rehabilitation program is to provide technical and financial assistance to Owners of existing housing in order to meet the following objectives:

- To cause the improvement of housing conditions for low and moderate income families;

- To increase the supply of affordable, decent, safe, and sanitary housing;

- To encourage the revitalization of deteriorated neighborhoods.

These guidelines set forth the scope of services and limits of assistance to be provided under the Housing Rehabilitation Loan Program; the criteria for eligibility and qualification of applicants for assistance; and the policies and procedures for Applicants, Contractors and the administration of the Rehab. Program.

I. DEFINITIONS

A. General

1. **Approved by the City and approval by the City** - These terms mean the City gives its consent to but does not represent, warrant or guarantee acceptability for any other purpose.
2. **Contract For Rehabilitation Loan** - the written agreement between the City and the applicant which sets forth the terms and conditions of the rehabilitation loan.
3. **Work Write-Up** - the item by item description of the rehabilitation work.
4. **Rehabilitation Work Contract** - the written agreement between the Owner and the Contractor which sets forth the scope of the work, the compensation and time for performance.

B. Agencies

1. **Federal** - pertaining to the government of the United States of America and its interests.
2. **State** - pertaining to the government of the State of North Carolina and its interests.
3. **Local** - pertaining to the government of the City of Asheville and its interests.
4. **Housing Rehab. Office** - an office within the City of Asheville Community Development Division responsible for administering the City of Asheville Housing Rehabilitation Loan Program.
5. **HUD, Dept. of** - The Department of Housing and Urban Development of the United States of America which administers Federal programs for housing and community development.
6. **NCHFA** - North Carolina Housing Finance Agency which administers State programs offering assistance for the development, construction and rehabilitation of low/moderate income housing including the Home Improvement Loan Program (HILP).

C. Applicants

1. **Owner-Occupant** - the Title Holder to a residential structure whose primary living unit is located in the structure.
2. **Investor-Owner** - the Title Holder to a residential structure who does not live in the structure.

D. Income

1. **Annual Income** - the gross amount received annually from all sources by every person residing in the dwelling, including wages, pension, Social Security, interest, rent, dividends, etc.
2. **Adjusted Income** - annual income less the following allowances:
 - a. for each family member under 18, disabled or, full-time student;
 - b. for any elderly family (over age 80);
 - c. medical expenses in excess of 3% of annual income;
 - d. child-care expenses to enable a family member to be gainfully employed or to further his or her education;
 - e. disability expense.
3. **Median Income** - the median income based on family size for the Asheville SMSA as determined by the U. S. Department of Housing and Urban Development.
4. **Low Income** - the annual income is below 50% of median income.

5. **Moderate Income** - the annual income is above 50% but does not exceed 80% of median income.
6. **Income Limits** - the maximum amounts that can be received as annual income to qualify for a specific assistance category, based on family size (those actually living at the property) and the median income.

E. Programs

1. **CDBG** - *Community Development Block Grant Program* (authorized under Title I of the Housing and Community Development Act of 1974) provides federal funds to localities for eligible community development activities.
2. **HOME** - A Federal program created under Title II (Home Investment Partnerships Act) of the National Affordable Housing Act of 1990 to provide funds to expand the supply of decent, affordable housing.
3. **FAIR Program** - *Flexible Affordable Inclusive Rehabilitation Program*, a rehabilitation loan provided to owner-occupants consisting of two components:
 - a. **amortized portion** - that portion of the FAIR Loan which must be repaid in regular monthly installments beginning on or about the completion of rehabilitation;
 - b. **deferred portion** - that portion of the FAIR Loan which is due and payable when the owner-occupant sells the property or otherwise transfers title or when the owner-occupant moves out of the property without transferring title (see Section 2.a.(vi) for exceptions).
4. **CARROT Program** - *City of Asheville Rental Rehabilitation for Owners and Tenants*, a rehabilitation loan provided to investor owners of property rented or to be rented to low or moderate income tenants.

F. Properties

1. **Residential** - A property used only for dwelling purposes, not commercial or office use.
2. **Dwelling Unit**- An independent living unit containing, at a minimum, a bathroom, kitchen or kitchenette, and a living area/bedroom.
3. **Single-Family Dwelling** - A property containing one dwelling unit.
4. **Multi-Family** - A structure containing two (2) or more dwelling units.
5. **Commercial** - A structure used exclusively for business, storage or staging commercial activity.
6. **Mixed Use** - A structure containing both commercial and residential space.

G. Standards

1. **City Code** - The Housing Code and/or Building Code enforced by the City of Asheville.
2. **Code Violation** - A physical condition of property that is not permitted by the City Code.
3. **Incipient Violation** - A physical condition of property which, if not repaired would deteriorate into an actual code violation within two (2) years.
4. **General Property Improvements (G.P. I.)** - An improvement to property which is not required to meet Rehabilitation Standards but is considered normal and customary but not luxurious.
5. **Rehabilitation Standards** - The requirements which properties must meet or exceed after rehabilitation which include: City Code, Federal, State, and Local laws and regulations, Section 8 Housing Quality Standards, the attached Residential Rehabilitation Standards, and if applicable, any Historic District Guidelines.

H. Target Neighborhoods

1. **CDBG Target Area** - An administratively designated geographic part of the City of Asheville in which Community Development activities are being carried out and which contains primarily low and moderate income residents.
2. **Redevelopment Project** - A geographic part of the City of Asheville designated by City Council as a redevelopment project under N. C. General Statutes.

II. FLEXIBLE AFFORDABLE INCLUSIVE REHABILITATION (FAIR) LOAN

A. Description

1. **Purpose** - The *FAIR Loan* is available to owner-occupants, who are natural persons and who meet the eligibility and qualification requirements of this section. The FAIR loan is for the purposes of residential rehabilitation only and is contingent upon the physical participation of the owner-occupant in the rehabilitation work to the extent that such participation is feasible.
2. **Terms** - The Fair loan may be an amortized loan or a combination loan consisting of an amortized amount and a deferred amount depending on the person's ability to pay.
 - a. **Amortized** - Repayment of the amortized portion requires regular monthly installments with a specified term, and interest rate.
 - b. **Deferred** - Repayment of the deferred portion is due upon transfer of ownership or occupancy with no installments, term or interest until such transfer.
3. **Minimum Amortized Amount** - All FAIR loans must include an amortized portion of not less than 25% of the total loan amount, unless waived as provided in II.A.4. hereof.
4. **Exception to Minimum Requirement** - The minimum amortized amount may be waived in part or in full when the approving Director determines that the rehabilitation will prevent homelessness and/or address a critical health/safety need and the applicant would not be able to rehabilitate the house without the FAIR loan.

B. Eligibility Criteria - To be eligible for a FAIR Loan, the applicant must meet the following criteria:

1. **Low Income** - The annual gross income of the applicant does not exceed 80% of the median income. The City of Asheville may require income verification for up to three (3) years prior to the application in order to determine income eligibility and the reasonableness of the assistance.
2. **Low Assets** - The applicant's assets excluding household furnishings and the property to be rehabilitated do not exceed \$50,000.00, for under 60 years of age and \$60,000 for 60 years of age and older.
3. **Owner/Occupancy** - The applicant occupies the property to be rehabilitated and has a recorded ownership interest in the property (all parties having an ownership interest in the property are required to execute the Promissory Note and Deed of Trust).
4. **Insurable Title** - The title to the property is insurable for the purpose of loan security.
5. **Taxes Paid or Payable** - The taxes on the property are paid up or payable from loan proceeds.
6. **Satisfactory Credit** - The applicant has a credit record acceptable to the City taking into consideration circumstances beyond the applicant's control and efforts by the applicant to fulfill his/her credit obligation.

7. **Property in City** - The property to be rehabilitated is located within Asheville city limits.
 8. **Residential** - The property is residential property containing not more than three dwelling units.
 9. **Zoning Compliant** - The property is not in violation of the City of Asheville Zoning Ordinance.
 10. **Substandard** - The property must need repairs to meet the Rehabilitation Standards.
 11. **Economically Feasible** - The property is economically feasible to rehabilitate in the determination of the City.
 12. **Non-Recurrent** - The property has not received rehabilitation assistance from the Housing Rehabilitation Loan Program during the last ten (10) years.
- C. **Maximum Total FAIR Loan Amount** - The FAIR loan may not exceed the lesser of:
1. \$50,000.00;
 2. the actual rehabilitation cost as determined by the City; or
 3. the loan amount determined by the City to be required to make the project feasible
- D. **Interest Rate And Term Of FAIR Loan**
1. **Low Income Interest Rate** - The interest rate for the amortized portion of the FAIR Loan for applicants whose income does not exceed **50%** of area median income is **25%** of the most recent average market rate for a 30 year mortgage as published on the Freddie Mac web site.
 2. **Moderate Income Interest Rate** - The interest rate for the amortized portion of the FAIR Loan for applicants whose income does not exceed **80%** of area median income is **50%** of the most recent average market rate for a 30 year mortgage as published on the Freddie Mac web site.
 3. **Maximum Loan Term** - The maximum term for loan amortization is 20 years For persons receiving a FAIR Loan with a deferred portion, the amortized portion must be calculated at the maximum term.
 4. **No Interest on Deferred Loans** - The deferred loan is a non-interest bearing loan.
- E. **Determining Amortized Portion Of Loan**
1. **Qualified Amount** - The amortized portion of the FAIR Loan is determined by first calculating the applicant's qualified amount.
 - a. **Adjusted Income** - Subtract the allowed deductions from annual income to arrive at adjusted income (Section I.D.2.). Adjusted income divided by twelve equals monthly adjusted income.
 - b. **Ability To Pay (ATP)** - ATP is equal to 28% of the monthly adjusted income less existing mortgage payments, property taxes and property insurance.
 - c. **Amortization Factor** - The amortization factor is derived by calculating the monthly payment for \$1,000 at the determined interest rate for a 20 year term . The interest rate is determined as described in Section II.D.
 - c. **Highest Affordable Loan** - The highest affordable loan is the amount of loan that the ATP will amortize over a 20 year term at the interest rate for which the applicant qualifiesThe highest affordable loan equals the ATP divided by the amortization factor multiplied by 1,000
 - d. **25% Minimum** - The Highest Affordable Loan is compared to 25% of the total FAIR loan requested. The greater of the two is the qualified

amount except when the minimum amortized portion has been waived by the approving Director as provided in II.A.3. above.

2. **Maximum Amortized Portion** - The "*Maximum Amortized Portion*" of the FAIR Loan is the **lesser** of:
 - a. the total FAIR loan;
 - b. the **Qualified Amount**; or
 - c. **\$50,000.00**

E. Determining Deferred Portion Of Loan

1. **Determine Amortized Portion First** - The deferred portion of the FAIR Loan is supplemental to the amortized portion so the amortized portion must be determined before the deferred portion.
2. **Maximum Deferred Portion** - the maximum deferred portion of the loan is the **lesser** of:
 - a. the difference between the amortized amount and the total FAIR loan amount or
 - b. 75% of the total FAIR loan amount.

Unless the minimum amortized requirement has been waived as provided in II.A.4. hereof and then the maximum deferred portion of the loan is the difference between the amortized amount and the total FAIR loan amount.

G. Owner's Participation in Rehabilitation Work

- A.**
1. **Owner Participation Required** - The owner must perform or have performed by a substitute (family member, friend or volunteer) a portion of the rehabilitation work unless, due to the nature of the work or the owner's health, it is not feasible for the owner to perform any portion of the work and no substitute can be found.
 2. **Owner Responsibility** - The Rehab Office will consult with the owner to determine those portions of the work which the owner will perform. The owner is responsible for determining his/her competence to perform any work and for insuring his/her own safety and well being in the decision to perform or the performance of any portion of the work.
 3. **Owner's Work Standards** - The Rehab Office may reject any work performed by the owner that does not meet the Rehabilitation General Specifications and require that the work be performed by a qualified professional.

H. Transfer Of Ownership Or Occupancy

1. **Consent Required, Exceptions** - If all or any part of the property or any interest in it is sold or transferred without the City's prior written consent, the City may, at its option, require immediate payment in full of all sums of both the amortized and deferred portions of the loan, except when:
 - a. **Low Income Heir** - An heir or natural person devisee of the borrower or co-owner whose income is below 80% of median income may continue in the place of the borrower as owner-occupant subject to approval of the City;
 - b. **Owner Occupancy Not Affected** - A transfer of ownership which does not affect the occupancy or ownership interest of the borrower will not affect the status of the loan if prior written approval of such transfer is given by the City;
 - c. **Medical Reasons** - If for medical reasons the borrower is unable to remain in occupancy, the property may be rented to and/or occupied by a low or

moderate income person during the borrower's absence subject to prior written approval of the City.

2. **Loan Assumptions-** Requests for loan assumptions will be reviewed and addressed on a case by case basis. The City will approve or disapprove such requests based on information supplied by the borrower about the proposed transfer which the City considers relevant and on terms and conditions which it considers in the best interest of the City of Asheville Housing Rehabilitation Loan Program. The City may require the proposed transferee to sign an "*Assumption Agreement*" that is acceptable to the City and that obligates the proposed transferee to keep all of the promises and agreements made in the Note, Deed of Trust, and all other loan and rehabilitation contract documents. The borrower will continue to be liable under the Note, Deed of Trust, and all other loan and rehabilitation contract documents unless the City releases the borrower in writing.
3. **Purchase and Rehabilitation** -If the Borrower, in the case of a purchase and rehabilitation, sells or transfers any part of the Property within five (5) years after the date of the Promissory Note for an amount that exceeds the sum of the City's lien and all superior liens on the Property and the Borrower's equity before rehabilitation, the Borrower shall pay, in addition to other amounts due under the note, ½ of the amount that exceeds the City's lien and all superior liens on the Property and the Borrower's equity before rehabilitation.
4. **Equity Protection**-Except as provided in Section II.G.5. the owner's equity shall be protected to the following extent if the property is sold at a price less than the total of the outstanding balance of the amortized portion of the loan, the deferred portion of the loan and the owner's equity before rehabilitation. The proceeds of sale shall be distributed as follows:
 - a. the balance owed on the amortized portion of the loan shall be paid off first;
 - b. the owner's equity before rehabilitation shall then be deducted from any proceeds remaining after pay-off of the amortized portion of the loan; and
 - c. any proceeds remaining after steps a and b shall be applied to the deferred portion of the loan.
5. **Exceptions to Equity Protection**-The owner's equity shall **not** be protected in the foregoing manner if any of the following conditions exist:
 - a. The loan is in default and/or the property is being sold at foreclosure.
 - b. The sale price is less than the Fair Market Value of the property established by an appraisal by a professional appraiser approved by the City.
 - c. The owner's equity has been encumbered by other liens or judgments subsequent to the FAIR loan.
 - d. The property has been damaged or has deteriorated in value due to the neglect, negligent act or omission of the owner or intentional act or omission of the owner.
 - e. The owner has not kept the property adequately insured against fire damage, destruction and casualty at all times.

I. General Terms

1. The applicant shall pay for all expenses, fees and costs (i.e. appraisal, survey, inspection, wood destroying pest inspection & treatment, origination fee, legal & recording expenses, fees and costs) in connection with the loan. These costs may be included in the loan.

2. The loan will be secured by a Promissory Note and Deed of Trust.
3. The loan may be in *1st, 2nd or 3rd lien position* at the discretion of the City.
4. The borrower may pre-pay either part or all of the loan at any time with no penalty charged for such pre-payment. In the event that part of the loan is prepaid, the monthly payment shall not be changed.
5. The City requires an escrow account for payment of taxes and insurance linked to the servicing of the amortized portion of the FAIR loan or to a superior loan. The owner is required to keep the taxes current, the property free from liens and encumbrances superior to the lien of the Deed of Trust and the premises insured at all times during the term of the loan.
6. Applicants may not receive duplicate assistance such as a FAIR loan with a deferred portion in addition to a grant or other deferred loan. Applicants may receive a FAIR loan without a deferred portion in addition to a grant or other deferred loan if eligible.
7. The applicant must execute a contract for a rehabilitation loan along with all other documents pertinent to the loan which the City may require.

III. CITY OF ASHEVILLE RENTAL REHABILITATION FOR OWNERS AND TENANTS (CARROT) LOAN

A. Description

1. **Purpose** - The *CARROT Loan* is available to investor-owners who meet the eligibility and qualification requirements pertaining to CARROT loans contained herein. The CARROT loan is for the purposes of residential rehabilitation of rental property which is occupied or to be occupied by low income tenants.
2. **Terms** - The CARROT loan is an amortized loan. The first payment is due one year from the date of loan closing. The first eleven (11) months interest rate is 10% and is deferred for five years then forgiven unless the property is sold or converted.

B. Eligibility Criteria

1. **Non-Owner Occupied Units** - The applicant must be the owner of a residential, mixed use or proposed conversion property located within the city limits of the City of Asheville and containing one or more non owner-occupied units.
2. **Non Recurrent** - The property must not have received assistance for housing rehabilitation from the City of Asheville Housing Rehabilitation Loan Program during the previous ten (10) years.
3. **Zoning Compliant** - The property must not be in violation of City of Asheville's Zoning Ordinance.
4. **Substandard** - The property must need repairs to meet the Rehabilitation Standards.
5. **Insurable Title** - The applicant shall have evidence of insurable title to the property to be rehabilitated.
6. **Taxes Current** - The applicant shall have paid all due property taxes.
7. **Good Credit** - The applicant's credit history must indicate an ability and willingness to fulfill and a history of fulfilling his/her credit obligations.
8. **Profitability** - The property must be able to generate a positive cash flow after rehabilitation.
9. **Low Income Occupancy** - All of the tenants of the property must have gross income less than 80% of median income except where the owner and the Rehab Office agree to a portion the rehab assistance to designated units or to floating units on a pro-rata basis.

10. **Financial Responsibility** - The applicant must demonstrate the ability to finance his share of the rehabilitation cost.
11. **Comprehensive Rehabilitation** - The entire structure containing dwelling units must be rehabilitated.

C. Maximum CARROT Loan Amount

The CARROT loan may not exceed the **lesser** of:

1. 100% of the eligible rehabilitation cost;
2. 90% of the after rehabilitation value of the property less any superior liens; or
3. the amount determined by the Rehab Office to be the minimum loan required to make the project feasible and affordable utilizing any other financing available to the investor/owner from other sources.

D. General Terms

1. A "*Rent Regulatory Agreement*" may be required for existing tenants.
2. The investor/owner may not project an annual rate of return on investment exceeding 15% for the first year after rehabilitation.
3. The property must meet Rehabilitation Standards after rehabilitation.
4. The loan may be in 1st, 2nd or 3rd lien position at the discretion of the City.
5. The applicant shall pay for all expenses, fees and costs (i.e. appraisal, survey, inspection, wood destroying inspection & treatment, credit reports, environmental assessments, origination fees, legal & recording expenses, and fees & costs in connection with the loan. These costs may be included in the loan if the loan is closed.
6. The CARROT loan amortization period is 20 years.
7. The interest rate shall be fixed at a percentage rate determined by the Rehab Office.
8. The first payment shall be due on the first day of the month, one year from the date of loan closing.
9. The CARROT loan is due and payable upon transfer of title or change of use of the property from low and moderate income rental. Annual verification of tenant income shall be provided as requested by the City.
10. The applicant must execute a contract for a rehabilitation loan along with all other documents pertinent to the loan which the City may require.

IV. REHABILITATION COST

A. ELIGIBLE COST

1. The cost to correct code violations.
2. The cost to correct incipient violations.
3. The cost of general property improvements (GPI's) not to exceed 40% of the rehabilitation cost (excluding rehabilitation paid by deferred amount of FAIR loans).
4. The cost to convert a property, if allowed by the City of Asheville Zoning Ordinance, by increasing or decreasing the number of units on the property.
5. The cost of building permits and related fees required to carry out the rehabilitation work, including but not limited to, architect and engineering fees.
6. The cost of changing a permitted non-conforming use to meet the requirement of the City code.
7. The cost of refinancing an existing mortgage to make the rehabilitation feasible.
8. The cost of handicapped accessibility retrofit.

9. The cost of cost effective energy efficient improvements.

B. INELIGIBLE COSTS

1. Excessive G. P. I.'s which are inconsistent with the G. P. I. requirements stated above (however, the owner may provide the difference in cash at the loan closing).
2. Materials fixtures, equipment or landscaping of a type or quality which substantially exceeds that customarily used in Asheville for properties of the same general type as the property to be rehabilitated (however, the owner may provide the difference between the cost of such materials, fixtures, etc. in cash at the loan closing).
3. Purchase, installation or repair of furnishings.
4. Cost of acquiring the property to be rehabilitated.
5. Work done prior to the approval of the loan, or contracted for, either verbally or in writing, prior to the approval of the loan.
6. The payment of any lien or judgment including back taxes except under the FAIR Program.

V. WORK WRITE-UP AND COST DEVELOPMENT

A. Inspection

1. The property shall be inspected by a City of Asheville Code Inspector to identify code violations and a copy of the inspection report shall be furnished to the City Housing Rehab. Office.
2. The property shall be inspected by a City of Asheville Rehab. Inspector for the purpose of developing a work write-up.

B. Work Write-Up

1. A work write-up shall be prepared by the City or the Owner or the Owner's Contractor that specifies the various items of work to be done and is of a form and substance acceptable to the City.
2. The work write-up shall constitute the sole basis for cost estimates, bids and determination of completion of rehabilitation.
3. The work write-up may be revised prior to solicitation of bids by mutual consent of the City and the Owner.
4. The work write-up may be amended after loan settlement only by a written "*Construction Change Order*" approved by the Owner, Contractor and the City.

C. Cost Estimate and Bids

1. A cost estimate shall be prepared by the City for its use in determining the feasibility of rehabilitation and determining whether the bids are fair and reasonable.
2. The acceptable bid must be within 15% of the City's cost estimate.
3. Bids may be obtained by any one of three methods: negotiation, informal bids or formal competitive bids (see Rehabilitation Contractor's Handbook).

VI. ELIGIBLE CONTRACTORS

A. Owner Contractors

- B.** An Owner may act as his/her own contractor only if the City is satisfied he/she meets the following requirements:
1. Adequate knowledge and experience doing rehabilitation work.
 2. Adequate time to supervise the job.
 3. Adequate working capital to pay suppliers and sub-contractors before loan funds are released.

C. Approved Contractors

Only contractors approved by the City shall perform work under this program. Approval shall be contingent upon the contractor providing and maintaining evidence of:

1. proper license
2. adequate insurance
3. sufficient skill and experience
4. adequate working capital and/or credit
5. acceptable references as to satisfactory performance

D. Contractors' Register

The City shall maintain a "*Rehabilitation Contractors' Register*" listing contractors approved by the City and provide a *Rehabilitation Contractors Handbook* setting forth policies and procedures for contractors participating in the rehabilitation loan program. The City may remove any contractor from the Register who fails to comply with the *Rehabilitation Contractors Handbook*. The Owner may submit any other contractor or contractors for approval.

VII. UNDERWRITING CONSIDERATIONS

A. Owner-Occupants

1. **Housing Cost Ratio** - The loan repayment plus all other housing costs (i.e. taxes, prior mortgages, insurance) should not exceed 28% of the applicant's family income.
2. **Debt Ratio** - The total estimated housing costs, including loan payment, plus payments on debts with longer than ten (10) months left to pay should not exceed 40% of the applicant's family income.
3. **Co-Signer** - An applicant who does not demonstrate the ability to repay the loan within the loan term may have the loan co-signed by an individual who can demonstrate that he/she has the ability to repay the loan within the loan term. The co-signer must meet the same credit requirements as the applicant and shall furnish appropriate verifications as requested. For purposes of determining eligibility for under 80% of median income assistance, the co-signer's income shall not be used unless the co-signer is also an occupant of the property to be rehabilitated.
4. **Refinancing** - Refinancing of existing mortgage debt may be considered when necessary to make rehabilitation affordable to the applicant. Refinancing shall not exceed 50% of the rehabilitation loan. Refinancing shall not be considered if the applicant's total housing costs including the rehabilitation loan does not exceed 28% of the applicant's family income without refinancing. Only single family residential properties may be refinanced.
5. **Loan to Value Ratio** - The loan-to-value ratio of the property shall not exceed 80% including any superior liens. For the purposes of calculating loan to value ratios, loans shall be discounted according to the term of the loan and interest rate (see Appendix III).

6. **Taxes** - Taxes refinanced as a part of the FAIR loan may not exceed 12.5% of the total loan or 100% of the amortized portion whichever is less.
7. **Per Square Foot Cost** - The per square foot cost generally may not exceed \$35.00 for the rehabilitation of existing units.

B. Investor-Owners

1. **Proforma** - Investor-owners must provide a proforma which sets forth a reasonable estimate of after-rehabilitation income and operating expenses.
2. **Debt Ratio** - The net operating income to debt service ratio must be at least 1:1 the first full year of operation.
3. **Return on Investment** - Return on cash investment must not exceed 15% the first year of operation.
4. **Credit Rating** - The applicant must have a credit history that demonstrates a consistent ability to meet and a history of meeting his/her financial obligations.
5. **Loan to Value Ratio** - The loan-to-value ratio may not exceed 85% if the CARROT loan amount exceeds 50% of the rehabilitation cost. The Loan-to-value ratio may not exceed 90% if the CARROT loan amount is 50% or less of the rehabilitation cost.
6. **Per Square Foot Cost** - The per square foot cost financed by the CARROT loan generally may not exceed \$35.00 for the rehabilitation of existing units. The per square foot cost for conversion of non-residential space to residential units shall be evaluated by the Rehab Office against the cost for new construction.

C. All Applicants

1. Satisfactory verification of all pertinent information submitted in support of the application
2. Signed loan application
3. Satisfactory Credit report
4. Evidence of acceptable title
5. Satisfactory Appraisal of after-rehabilitation value
6. Work write-up and cost estimate
7. Acceptable bid
8. Additional supplemental documentation, statements and clarifications as the City may require

VIII. CASH MANAGEMENT

- A. The rehabilitation loan funds shall be obligated at the time of loan settlement. The rehabilitation loan funds shall be drawn down as needed to pay eligible rehabilitation cost in accordance with the current procedures of the Dept. of HUD and the City of Asheville. The loan repayment shall be set to begin not less than thirty (30) days after the scheduled date for completion of the rehabilitation work. Change orders extending the date for completion shall not extend the date for loan repayment to begin. Interest shall begin to accrue on the loan beginning thirty (30) days prior to the date scheduled for the first loan payment. After completion of the rehabilitation work, any unutilized funds including liquidated damages, assessed against the contractor shall be deobligated and any insurance and condemnation proceeds and prepayments received during the life of the loan shall be applied to the deferred portion of the loan.
- B. Owner funds required as part of the rehabilitation cost shall be deposited in a custodial account. Unutilized Owner funds shall be returned to the Owner after completion without interest.

- C. Progress payments may be made to the contractor during construction in accordance with procedures described in the *Rehabilitation Contractors Handbook* after documentation satisfactory to the City.

IX. REHABILITATION WORK

- A. The work contract shall be of a form and substance acceptable to the City
- B. The work contract shall be between the owner and the contractor. The City assumes no responsibility for the performance, quality or sufficiency of the work under the contract or the interest of either party to the contract. The City's actions with regard to the contract are to be construed as being solely in the interest of the City of Asheville Housing Rehabilitation Loan Program. Neither the owner, contractor, nor any participating lender shall be entitled to rely upon or deemed to be a beneficiary of any approval or inspection of the City

X. CONSTRUCTION

- A. All rehabilitation work shall be performed in accordance with the General Specifications for rehabilitation, the work write-up and duly authorized change orders.
- B. Progress inspections shall be made by the City during normal business hours as often as deemed necessary by the City to verify the satisfactory performance of the work. The City assumes no responsibility for the performance, quality or sufficiency of the work under the contract or the interest of either party to the contract. The City's actions with regard to the contract are to be construed as being solely in the interest of City of Asheville's Housing Rehabilitation Loan Program.
- C. It shall be the responsibility of the owner to ensure that the property meets the Rehabilitation Standards after completion.
- D. The rehabilitation work shall be performed within an established time frame acceptable to the City
- E. The Owner shall be responsible financially for any rehabilitation cost in excess of the assistance provided by the City even though it may be for work required to meet Rehabilitation Standards.

XI. SPECIAL PROVISIONS

- A. The City may develop and require the use of various forms, documents and procedures to further the purposes and objectives of the City of Asheville Housing Rehabilitation Loan Program. Such forms, documents and procedures shall be effective as of the date of adoption by the City
- B. Applications for FAIR and CARROT loans not to exceed the maximum allowed for rehabilitation of a single unit under the FAIR program may be approved by the Community Development Director or the Planning and Development Director. All other rehabilitation loan applications may be approved by the City Manager upon recommendation by the Rehabilitation Loan Committee which shall consist of the Director of Finance or his designee, the Director of Audit and Budget or his designee, and the Director of Planning and Development or his designee.
- C. The City may refuse to provide rehabilitation assistance to any applicant who refuses to cooperate with the rehabilitation program and abide by these guidelines.

- D.** These guidelines shall be effective as of the date of adoption by the City after review and approval by City of Asheville's Community Development Division. Amendments hereto may be made at any time without notice to any party and shall be adopted and effective in like manner.
- E.** The following documents are hereby incorporated by reference and made a part hereof:
1. City of Asheville Residential Rehabilitation Standards
 2. *Rehabilitation Contractors Handbook* issued by the City
 3. General Specifications for Rehabilitation issued by the City
 4. City of Asheville's Code(s)
 5. City of Asheville's Zoning Ordinance(s)
 6. Section 8 Housing Quality Standards set forth in HUD Handbook 7420.7, issued by the U. S. Department of Housing and Urban Development
 7. Secretary of the Interior's Standards for Rehabilitation and Guidelines for Rehabilitation Historic Buildings (revised 1983), issued by the U. S. Department of Housing and Urban Development
- F. Other Loans-**The City may assist Homeowners and Investors to apply for other available rehabilitation loans including, but not limited to, N. C. Housing Finance Agency home improvement loans and FHA Title I home improvement loans.
- G. Requests For Subordination Of Rehabilitation Loans-**Subordination of City of Asheville rehabilitation loans shall be reviewed on a case-by-case basis. Approval of subordination shall be at the sole discretion of the City of Asheville considering the circumstances of the case and the interests of the City of Asheville.

TOTAL DEBT CALCULATION TABLE

For the purposes of underwriting CDBG loans, total debt secured by the property includes the following:

- 1 The full amount of any liens superior to the CDBG loan (principal only) secured by the property; PLUS
2. The principal amount of the CDBG loan discounted as follows:

| <u>Loan Type - Interest Rate</u> | <u>Discount</u> |
|----------------------------------|-----------------|
| Deferred - 0% | 75% |
| Low Income - 25% of Market | 50% |
| Moderate Income - 50% of Market | 25% |